

Message Text

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44

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TO AMEMBASSY SINGAPORE

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AMEMBASSY BANGKOK

AMCONSUL HONG KONG

AMEMBASSY KUALA LUMPUR

AMEMBASSY MANILA

AMEMBASSY SAIGON

AMEMBASSY SEOUL

AMEMBASSY TAIPEI

AMEMBASSY TOKYO

AMCONSUL MEDAN

AMCONSUL SURABAYA

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SUBJECT: ELECTRONICS PRODUCTION IN INDONESIA

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SUMMARY

ELECTRONICS INDUSTRY IN INDONESIA IS IN NASCENT STAGE

WITH FOUR U.S. COMPANIES -- MONSANTO, MICRO-TECH,

NS AND FARICHILD -- HAVING INITIATED ASSEMBLY OF

LIGHT EMITTING DIODES, COMPUTER CORE MEMORIES AND

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MOLDED INTEGRATED PLASTIC CIRCUITS IN PAST 18

MONTHS. ALL FOUR COMPANIES ARE PROGRESSING WELL IN SPITE OF SOFTENING DEMAND IN U.S. MARKET AND SPORADIC DIFFICULTIES IN OBTAINING NEEDED RAW MATERIALS. LABOR SUPPLY HERE IS ABUNDANT AND CHEAP -- APPROXIMATELY \$1 PER DAY PER EMPLOYEE IN THIS INDUSTRY. PRODUCTION EXPECTED REAMIN AT CURRENT OR HIGHER LEVEL IN NEAR AND LONG TERM. LABOR FORCE REDUCTIONS AND SHORTER WORK WEEKS ARE NOT ANTICIPATED. AT LEAST TWO COMPANIES ARE PLANNING SIGNIFICANT INCREASE IN SIZE THEIR LABOR FORCE. END SUMMARY.

1. P.T. MONSANTO PAN ELECTRONICS (JAKARTA) ASSEMBLES LIGHT EMITTING DIODES USED MOSTLY IN CLAUDULATORS BUT ALSO IN CLOCKS. COMPANY WAS PLANNING PRODUCE SAME PRODUCT FOR AUTO MAKERS BUT ORDERS CANCELLED. COMPANY'S LABOR FORCE OF 1200 HAS REMAINED RELATIVELY STABLE SINCE EARLIER 1974 WHEN IT BEGAN OPERATIONS. FIRM HAS AVOIDED LAYOFFS BY EXPANDING OUTPUT, DECREASING UNIT COST AND TRIMMING LABOR FORCE SLIGHTLY THROUGH ATTRITION. MANAGEMENT RECEIVES EIGHT-WEEK PRODUCTION SCHEDULE AT TIME. PRESENT PRODUCTION TARGETS ARE SAME AS USUAL AND NO LAYOFFS OR REDUCTION IN WORK WEEK FORESEEN. LIKE MOST SEMICONDUCTOR ASSEMBLERS, MONSANTO HAS BEEN IN HOLDING PATTERN FOR MONTHS AS IT OBSERVED RAW MATERIALS PRICES RISING AND WHOLESALE PRICES FALLING. COMPANY OFFICIAL REPORTED SEMICONDUCTOR BUYERS IN U.S. GOT IN HABIT PLACING ORDERS FOR SAME COMPONENTS WITH SEVERAL ASSEMBLERS AT ONE TIME. BUYERS THEN PLACED THEMSELVES IN POSITION OF BEING ABLE TO BARGAIN FOR LOWEST PRICE AND THEN CANCELLING THEIR ORDERS WITH OTHER ASSEMBLERS. OFFICIAL DESCRIBED THIS TACTIC AS TANTAMOUNT TO CREATING PRICE WAR WHICH LEFT MANY ASSEMBLERS HIGH AND DRY WITH LARGE INVENTORIES. OFFICIAL STATED OPINION OF EIA CITED RE B HITS NAIL SQUARELY ON HEAD. IT IS LIMITED OFFICIAL USE

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NOT HIGHER WAGE RATES IN SINGAPORE OR ELSEWHERE IN SEA THAT ARE AT ROOT OF PROBLEM BUT RATHER FLUCTUATION OF DEMAND IN U.S. MARKET WHICH THREE TIMES IN PAST DECADE HAS ROCKED SEMICONDUCTOR INDUSTRY WITH LAYOFFS AFFECTING 30 PERCENT OF PEOPLE IN INDUSTRY.

2. P.T. MICRO-TECH INDONESIA (JOGYAKARTA) BEGAN

ASSEMBLING COMPUTER CORE MEMORIES IN MARCH 1973. COMPANY EMPLOYS 680. IN NOVEMBER, 1973, BECAUSE OF SHORTAGES OF FERRITE CORES AND PRINTED CIRCUIT BOARDS IN HONG KONG, COMPANY WAS FORCED TO CUTBACK SIZE ITS LABOR FORCE BY 200, BUT MOST THESE EMPLOYEES WERE LATER RE-HIRED. MICRO-TECH MANAGEMENT DOES NOT ANTICIPATE SLACKENING IN DEMAND FOR ITS PRODUCT. ON CONTRARY, THERE IS MULTO-MILLION DOLLAR BACKLOG FOR PRODUCT AND COMPANY IS HIGHLY PLEASED WITH ITS SALES AND TWO-YEAR BACKLOG OF ORDERS. COMPANY NOW CONSIDERING INCREASE ITS WORK FORCE BY 500. MANAGER IS CONVINCED SINGAPORE IS VERY EXPENSIVE PLACE TO DO BUSINESS. FEW MONTHS AGO, HE INVENTORIED PRICES THERE AND WAS AMAZED HOW EXPENSIVE IT IS TO OPERATE IN ISLAND REPUBLIC. HE SAID HE WOULD NOT CONSIDER OPENING PLANT THERE OR IN HONG KONG. BOTH LOCATIONS ARE JUST TOO EXPENSIVE. HE SAID CHEAP LABOR WAR REASON HIS COMPAY CAME TO INDONESIA.

3. P.T. FAIRCHILED SEMICONDUCTOR INDONESIA (JAKARTA) IN APRIL 1974 INITIATED ASSEMBLING PLASTIC INTEGRATED CIRCUITS FOR USE IN COMPUTERS, TELEVISION AND OTHER ENTERTAINMENT INDUSTRY PRODUCTS. COMPANY, WHICH EMPLOYS 450 IN THREE SHIFTS, RECENTLY CUTBACK WORK WEEK TO FOUR DAYS NOT BECAUSE OF SOFTENING U.S. DEMAND BUT BECAUSE OF PROBLEM OF RAW MATERIAL SUPPLY FROM U.S. NO LAYOFFS ANTICIPATED AND SALARIES FOR FIVE-DAY WEEK STILL BEING PAID LABOR FORCE. COMPANY HAS STOPPED HIRING UNTIL INVENTORIES FALL INTO LINE ONCE AGAIN, BUT MANAGEMENT FORESEES ACCELERATING LIMITED OFFICIAL USE

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DEMAND OVER NEAR AND LONG TERM AND ANTICIPATES GO AHEAD SIGNAL SOON FROM CORPORATE HEAD-QUARTERS TO INCREASE SIZE LABOR FORCE TO 700 PEOPLE BY END 1974. COMPANY PRESENTLY OPERATING IN 6,000 SQ. FT. BUILDING, HAS NEW 100,000 SQ.FT. BUILDING UNDER CONSTRUCTION, AND PLANS WORK FORCE OF 5,000 PEOPLE WITHIN 3-5 YEARS. COMPANY IS ENJOYING SIX-YEAR TAX HOLIDAY, HAS NO PROBLEMS WITH CUSTOMS CLEARANCE AND TURNAROUND TIME AND FINDS LOW WAGE RATES HERE AN INCENTIVE IN ITSELF. MANAGEMENT BELIEVES LAYOFFS IN SEMICONDUCTOR INDUSTRY ARE DUE TO GENERAL SLOWDOWN IN U.S. ECONOMY. THEY SAID INDUSTRY REALIZED FANTASTIC 70 PERCENT GROWTH IN 1973 AND THIS DROPPED TO 30 PERCENT THIS YEAR WHICH IS STILL

OUTSTANDING.

4. P.T. NATIONAL SEMICONDUCTOR INDONESIA (BANDUNG)
IN FEBRUARY 1974 BEGAIN ASSEMBLING INTEGRATED
PLASTIC CIRCUITS FOR TELEVISION SETS, RADIOS
AUTO, COMPUTERS. SIZE COMPANY'S LABOR
FORCE IS 230. NO LAYOFFS OR REDUCTION IN
LENGTH OF WORK WEEK YET AND NONE FORCEAST.
RECENTLY, COMPANY ADDED THIRD SHIFT AND WILL SOON
MOVE FROM TEMPORARY RENTED QUARTERS INTO NEW PLANT.
COMPANY OFFICIAL STATED SEMICONDUCTOR INDUSTRY
IS IN STAGE OF OVERCAPACITY WORLDWIDE. HE SAID
INDUSTRY IS YOUNG AN REACTS QUICKLY TO
CHANGING ECONOMIC CONDITIONS AND HIS FIRM IN
PARTICULAR HAS REPUTATION FOR REACTING
SWIFTLY TO CHANGES IN DEMAND WITH RESULT IT
HAS BEEN SPARED MANY OF FINANCIAL WOES WHICH
HAVE BUFFETED ITS COMPETITORS.
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